AR57

Linamar

Linamar Corporation

Precision Machining
Castings
Assembly & Sub-Assembly

Annual Report 1997

Commitment to

Organizational Structure:

One of the main ingredients to Linamar's success has been the drive of its lean, hands-on entrepreneurial management team. Operating through nineteen autonomous companies, each with its own cross functional management team, Linamar has in excess of one million square feet of manufacturing floor space and employs approximately 5,000 people worldwide. The company's capital resources and decentralized organizational structure grant the luxury to expand any of Linamar's current companies, or build a facility to suit a customer's needs, quickly and efficiently.

Linamar's headquarters are located in Guelph, Ontario, along with a significant percentage of the company's manufacturing capacity. This places considerable capacity within a 200-mile radius of Detroit, Michigan, the core of the North American automotive industry. The company's European manufacturing capacity operated by its Mezőgép Rt. subsidiary is located in Orosháza, Hungary. Hungary is centrally located in Europe making it ideally situated for penetration into European markets. The company's Mexican manufacturing capacity will be located in Saltillo, Mexico; the first Mexican plant is planned for completion in 1998.

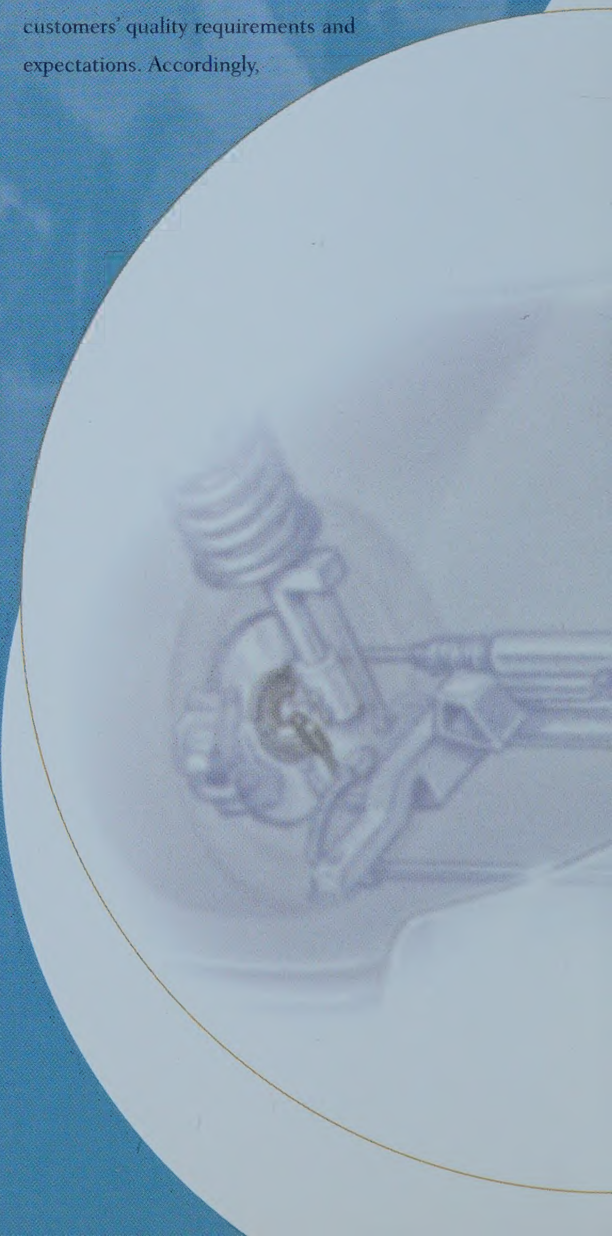
Each manufacturing center is comprised of several plants. The practice of clustering plants within a small geographic area allows the cluster to enjoy economies of scale while ensuring individual plants still meet customer requirements on a personalized basis.

Linamar is committed to the premise that organizational quality is one of the single most critical elements in building and sustaining competitiveness in the global market place. In order to do this the company maintains a policy to educate employees, establish continuous improvement programs and therefore maintain continuous improvement in all areas of production and management. Linamar works diligently with all nineteen facilities to continuously improve organizational effectiveness. This concept is incorporated into all of the company's business functions including quality assurance, manufacturing, material management, finance and engineering.

Quality:

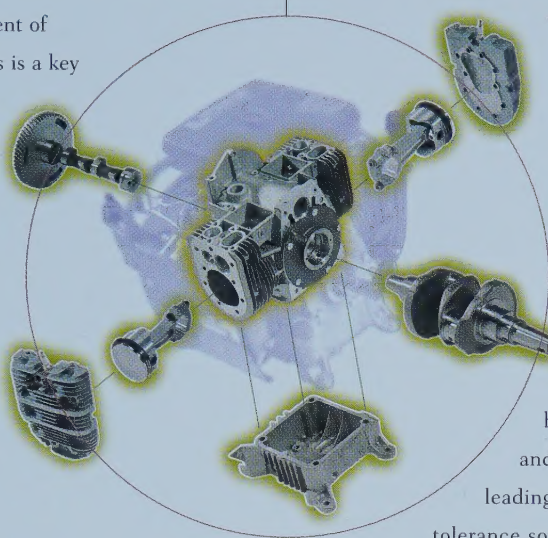
Linamar's dedication to organizational quality leads it to strive for the highest quality in everything that it does. This is reflected in the number of prestigious designations that the Linamar companies are honoured to have received over the years. In 1991 Linamar received the Canadian Award for Business Excellence (CABE) under the Quality category. Several Linamar companies have also been distinguished with Supplier awards from various customers, including Ford Motor Co., General Motors, Cummins and Xerox. The Ontario Government has also honoured one of Linamar's companies with an award for its waste reduction initiatives. Currently fifteen plants are ISO-9002 registered and fourteen are QS-9000 registered – with the remaining five scheduled to be registered within the year.

It is Linamar's policy to provide product, services and processes that will meet or exceed its customers' quality requirements and expectations. Accordingly,



uality

the implementation and management of effective quality operations systems is a key building block at Linamar and an absolute necessity to ensure that customer quality and delivery requirements are maintained. Such systems include extensive Statistical Process Control, Dimensional Control Planning, Failure Mode and Effect Analysis and personnel training.



Technology:

Linamar takes pride in its innovative approach to solving its customers' most demanding manufacturing problems. Linamar has a very strong technical orientation, both in its people and its equipment. Twenty-five percent of Linamar's workforce is of a technical orientation; allowing Linamar to be highly responsive to customer needs and concerns. Linamar's commitment to leading edge technology in the close tolerance sophisticated manufacturing field, funded by an aggressive capital expenditure program, ensures that the company is taking advantage of highly efficient, highly capable equipment. Doing so allows the company to provide products of the highest quality for the lowest cost. New technologies and resources developed at any one Linamar company are shared with all companies, thus keeping the entire Corporation on the leading edge of technology.

Service:

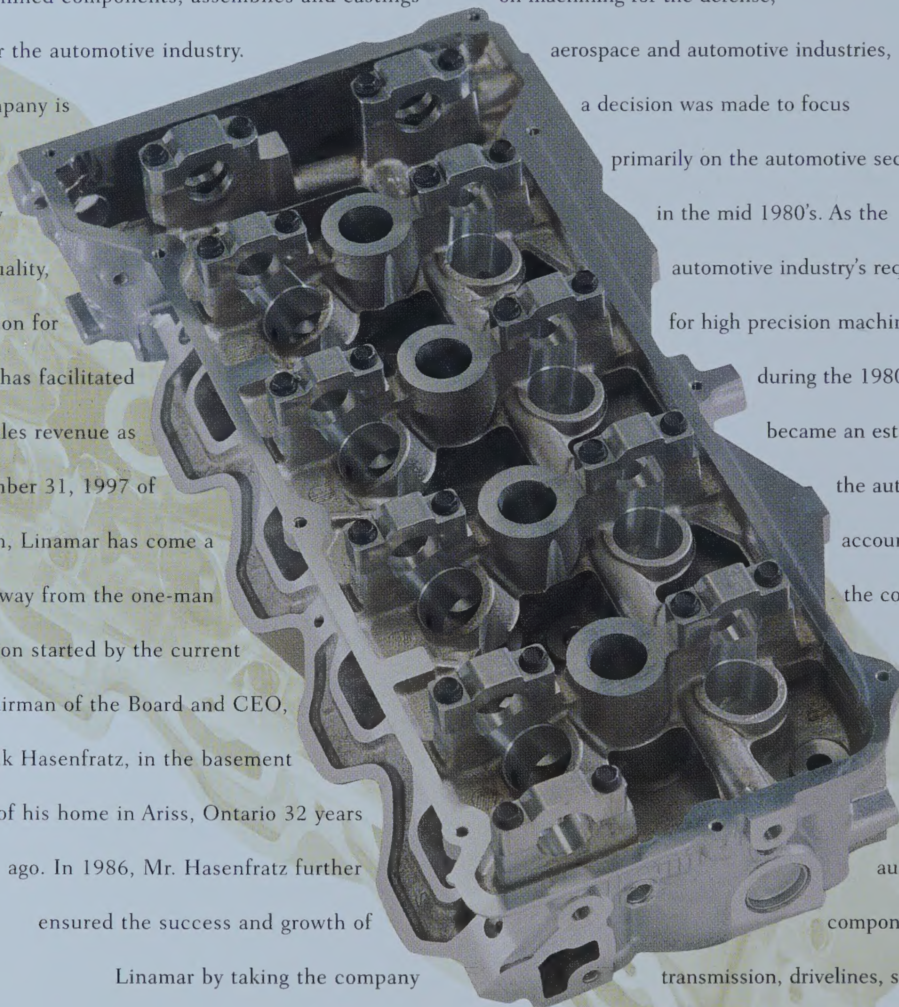
Linamar is committed to providing total satisfaction to its customers, its employees and to its community. The company ensures dependable and consistent sales service to its customers and human resource services to its employees, by centralized coordination of the Sales and Marketing, Human Resources and Finance functions at the corporate level. This dedication to its customers and employees is an essential ingredient in the company's strive towards Total Customer Satisfaction.

Linamar's Transportation division is another example of the company's commitment to complete Customer Satisfaction. Its fleet of tractor trailers ensures timely, safe and efficient delivery of customer's products across North America. Utilization of Linamar's in-house Customs Department guarantees smooth, efficient deliveries across all international borders.

In striving to achieve our customer's most demanding needs in all areas of the organization, Linamar promises Total Customer Satisfaction, ensuring both continued success for the customer and the company in the years to come.

Linamar Corporation, The Company:

Precision Machining



Linamar Corporation is a global manufacturer of precision machined components, assemblies and castings primarily for the automotive industry. The company is focussed on maintaining the low cost, high quality, on-time reputation for manufacturing that has facilitated its growth. With sales revenue as of December 31, 1997 of $771 million, Linamar has come a long way from the one-man operation started by the current Chairman of the Board and CEO, Frank Hasenfratz, in the basement of his home in Ariss, Ontario 32 years ago. In 1986, Mr. Hasenfratz further ensured the success and growth of Linamar by taking the company public. Linamar Corporation has successfully traded on The Toronto Stock Exchange since that time.

Though the company was founded on machining for the defense, aerospace and automotive industries, a decision was made to focus primarily on the automotive sector in the mid 1980's. As the automotive industry's requirements for high precision machining grew during the 1980's, Linamar became an established supplier; the automotive industry now accounts for over 90% of the company's total sales. The company's expertise in the machining and assembly of various automotive systems and components – engine, transmission, drivelines, steering, suspension and brake components – combined with its solid lean, entrepreneurial management organizational structure and dedication to leading edge technology are all key ingredients in what makes Linamar so successful.

Castings

Assembly & Sub-Assembly

Planet Plates for air conditioning systems

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Linamar Corporation

Annual Meeting

The Company's annual meeting
will take place at Creelman Hall
University of Guelph, Guelph, Ontario
Thursday, April 30, 1998
at 6:00 p.m.

Officers

Frank J. Hasenfratz, Chairman & CEO
Linda Hasenfratz, Chief Operating Officer
W. George Sims, Chief Financial Officer & Treasurer
Michael Annable, Director of Human Resources
Mark Stoddart, Director of Marketing
Nick Efthimakis, Group Vice President
Jim Jarrell, Group Vice President
Ted McGregor, Group Vice President
Walter Stachnyk, Group Vice President

A series of transmission components

Directors

Frank J. Hasenfratz
Chairman of the Board & Chief Executive Officer
Linamar Corporation

Linda S. Hasenfratz
Chief Operating Officer
Linamar Corporation

Robert M. Wilson†*
Retired Automotive Executive
Oshawa, Ontario

Hugh Guthrie†*
Partner
Hungerford, Guthrie & Berry
(Barristors and Solicitors)
Guelph, Ontario

William J. Harrison†*
Chief Executive Officer
& Chairman
Kenhar Corp.
Guelph, Ontario

* Audit Committee
† Human Resources and Corporate Governance Committee

The report on Corporate Governance can be found in the Management Information Circular.

Auditors, Transfer Agent & Registrar

Coopers & Lybrand, Chartered Accountants, Waterloo, Ontario are the auditors of Linamar Corporation. The transfer agent and registrar for the Common Shares of the Company is Montreal Trust at its principal offices in Toronto.

Shares Listed

Toronto Stock Exchange
trading under LNR

Financial Highlights

(millions of dollars, except share related information)

	Years Ended December 31 1997	1996	1995	1994	Six Months Ended December 31 1993	Year Ended June 30 1993
Statement of Earnings						
Sales	$ 771.4	$ 607.7	$ 545.8	$ 431.4	$ 183.5	$ 250.4
Operating Earnings	134.1	86.0	58.7	48.4	14.9	22.7
Net Earnings	$ 108.4	$ 61.6	$ 37.5	$ 31.2	$ 10.6	$ 13.4
Share Information						
Net Earnings Per Share	$ 4.75	$ 2.76	$ 1.70	$ 1.44	$ 0.51	$ 0.74*
Net Earnings Per Share Excluding Non-Recurring Items	$ 3.90	$ 2.45	$ 1.70	$ 1.44	$ 0.51	$ 0.74*
Weighted Average Number of Common Shares Outstanding	22,831,554	22,323,092	22,046,669	21,586,304	20,560,128	18,024,824*
Financial Position						
Total Assets	$ 531.9	$ 364.4	$ 330.0	$ 250.7	$ 209.4	$ 193.6
Capital Assets	242.6	204.5	165.6	125.3	100.8	90.9
Long-Term Debt	8.4	18.1	28.0	23.7	28.5	35.3
Shareholders' Equity	$ 346.6	$ 240.7	$ 185.0	$ 152.8	$ 121.0	$ 73.0
Other Financial Information						
Cash from Operating Activities	$ 146.9	$ 128.5	$ 38.4	$ 53.7	$ 16.3	$ 1.8
Capital Expenditures	88.4	89.5	54.1	52.8	23.0	32.9
Depreciation and Amortization	49.4	40.5	30.1	25.1	10.0	15.0
Working Capital	140.2	52.5	41.1	40.3	36.1	2.9
Market Price TSE High	92.30	44.00	24.00	25.00	21.00*	14.60*
Low	42.50	20.50	14.70	15.50	9.20*	9.20*
Close	$ 83.00	$ 44.00	$ 23.00	$ 19.40	$ 19.10*	$ 14.60*

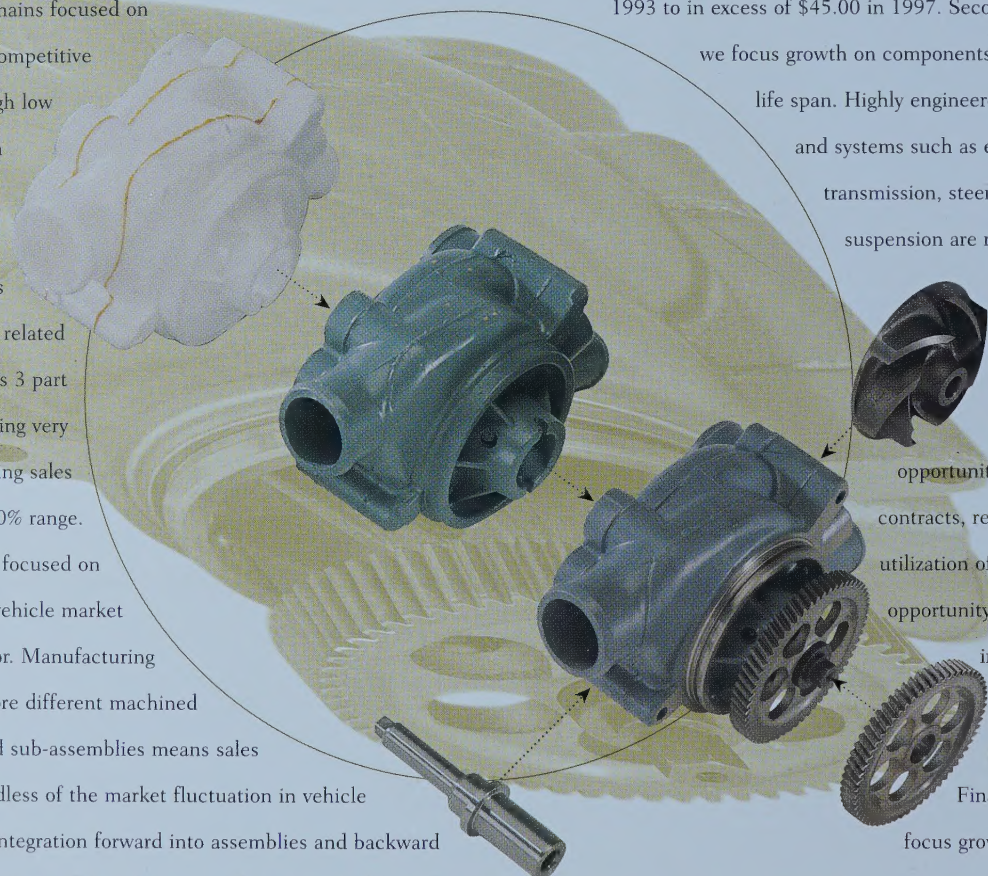
Reflects the 2 for 1 stock split of November 1993

Sales
$ (Millions)

Net Earnings
$ (Millions)

Chairman's

1997 represents another record year for Linamar, with sales and net earnings of $771.4 and $108.4 million respectively, continuing our tradition of year over year sales and earnings growth. Linamar remains focused on maintaining a competitive advantage through low cost high quality on time production of precision machined components and assemblies for the automotive and related industries. Linamar's 3 part marketing strategy is proving very successful in maintaining sales growth levels in the 15-20% range. Firstly, Linamar is focused on growing its content per vehicle market penetration indicator. Manufacturing more and more different machined components and sub-assemblies means sales growth regardless of the market fluctuation in vehicle demand. Integration forward into assemblies and backward into castings will be a large part of this growth. Linamar is already producing several assemblies, including a rear wheel drive module used in minivan applications, water pumps, vacuum pumps and manual steering gear assemblies. Diversa Cast Technologies Inc., our lost foam casting division, is in production on several programs as well. Content per vehicle for Linamar has grown from approximately $17.00 in 1993 to in excess of $45.00 in 1997. Secondly, we focus growth on components with a long life span. Highly engineered components and systems such as engine, transmission, steering, brake and suspension are redesigned infrequently, with a typical life span of 10-12 years. Such components offer the opportunity for long term contracts, resulting in optimal utilization of equipment, ample opportunity for continuous improvement and enhanced profitability. Finally, we focus growth across a diverse range of platforms. Producing components for a full range of platforms offers protection from sales fluctuations related to model demand.



Message

As demand decreases for a particular model it is increasing for another – production for both platforms allows for a flattening of these demand peaks and valleys. For example, in 1997 Linamar manufactured components for 6 of Ford's 7 transmissions and 4 of GM's 6 transmissions.

Growth levels in future years will be maintained through continued greenfielding, further globalization and acquisitions.

Greenfielding is the foundation of Linamar and will continue to be a big part of our growth. 1997 saw the establishment of our first dedicated assembly facility, LPP Manufacturing, in Guelph. LPP will be assembling small gasoline engines for the power generation, turf, agricultural and industrial markets. The business is an excellent opportunity for Linamar to assemble the many types of engine components we have already manufactured in the past and positions us as a natural choice for future possible low volume gasoline engine assembly outsourcing by the automotive OEMs. The business has a great deal of potential with 100,000 units planned for 1998, a capacity for 500,000 units and a market potential of 4.2 million units in North America alone.

Greenfielding is being combined with globalization in the establishment of our first Mexican subsidiary in 1998. Mexico promises to be a very successful venture for Linamar due to the opportunities available with the OEMs' Mexican subsidiaries, the lack of precision machining operations in Mexico and the abundant supply of skilled labour. Further globalization will come with continued growth of our Hungarian subsidiary, Mezőgép Rt. Mezőgép Rt. is well positioned for growth after their very successful public offering in March 1997. The offering of 33.4% of Mezőgép Rt.'s share of capital netted proceeds of HUF 4,523 million. This resulted in a non-recurring gain to Linamar Corporation of $19.4 million. Mezőgép Rt.'s strategic location in Central Europe, combined with a highly trained and skilled workforce, world class quality and competitive pricing, positions it for strong growth.

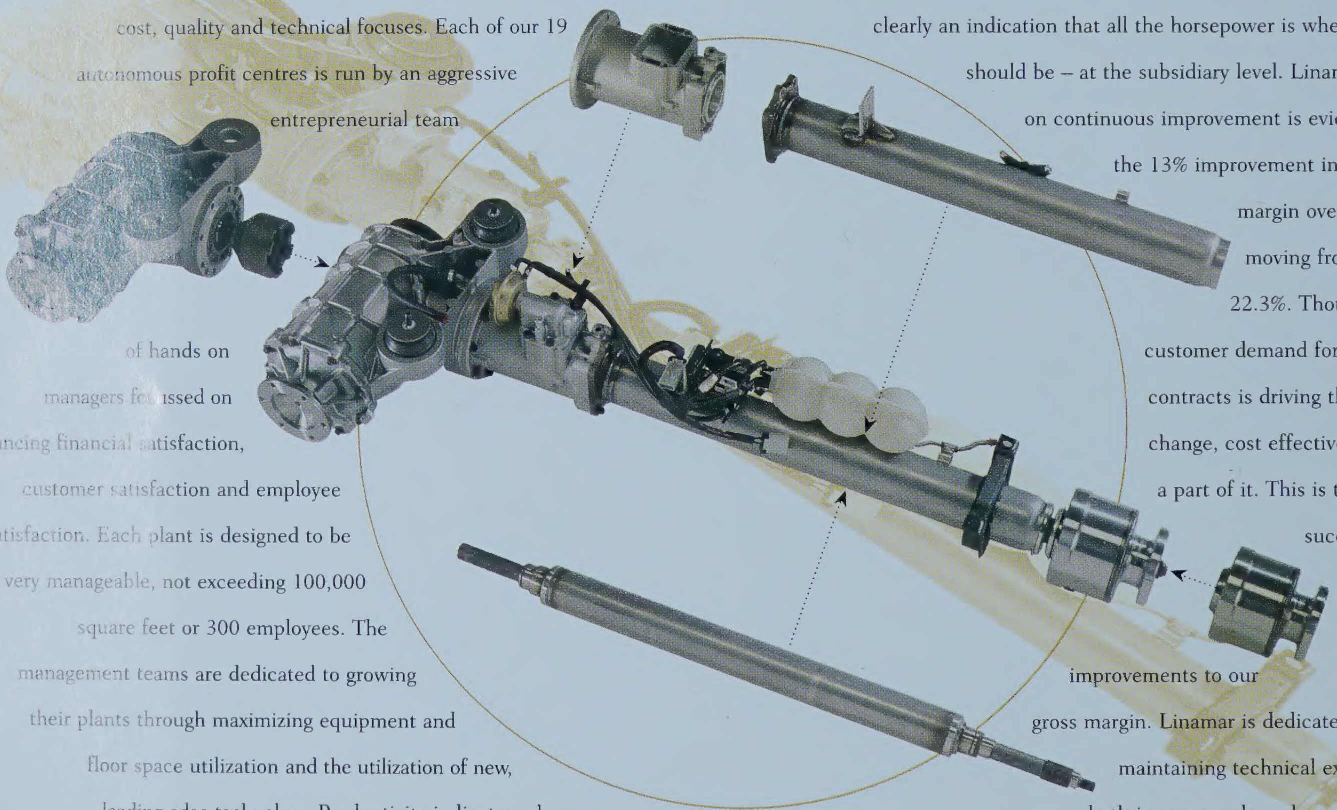
Finally, acquisitions will also play a role in Linamar's continued growth. Linamar continues to search for appropriate partners in this regard; partners who bring strategic value to Linamar as well as financial value, providing a good fit with our culture and management philosophies. A profile of a small company with solid management looking for capital to grow would fit with this formula. This would allow Linamar to grow the new partner within established guidelines for success.

Overall, Linamar enters 1998 strong and confident, poised to continue our success story into the next century.

Frank J. Hasenfratz,
Chairman of the Board & Chief Executive Officer

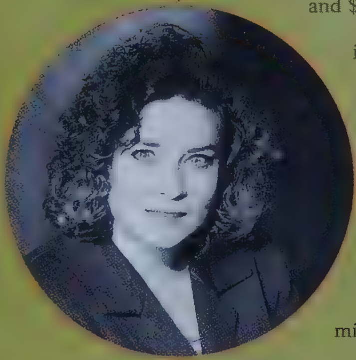
Chief Operating

1997 has been another excellent year worldwide for Linamar's subsidiaries. Operationally, the company has a very strong foundation to build on. The basic philosophies utilized in our business are well developed and getting results, extending from our organizational structure and management philosophies, to our cost, quality and technical focuses. Each of our 19 autonomous profit centres is run by an aggressive entrepreneurial team of hands on managers focussed on balancing financial satisfaction, customer satisfaction and employee satisfaction. Each plant is designed to be very manageable, not exceeding 100,000 square feet or 300 employees. The management teams are dedicated to growing their plants through maximizing equipment and floor space utilization and the utilization of new, leading edge technology. Productivity indicators show an improvement of 12.8% in annual sales per employee for our Canadian machining operations over 1996, moving from $180,539 to $203,610, and an improvement of 10.7% in annual sales per square foot over 1996, moving from $539 per square foot to $596 per square foot. These productivity improvements are made more impressive in consideration of the fact that year over year increases have already been seen in these areas for many years. Linamar is highly focused on cost effectiveness. Evidence of such can be found in our lean management structure, both at the subsidiary and corporate level. Linamar's corporate office is comprised of 29 individuals – clearly an indication that all the horsepower is where it should be – at the subsidiary level. Linamar's focus on continuous improvement is evident from the 13% improvement in our gross margin over 1996 levels, moving from 19.7% to 22.3%. Though increased customer demand for consigned material contracts is driving the majority of this change, cost effectiveness is certainly a part of it. This is the latest in a succession of year over year improvements to our gross margin. Linamar is dedicated to maintaining technical expertise both in our people and our equipment. More than 25% of our population worldwide is of a technical orientation. This offers a significant competitive advantage to Linamar as it allows us to devise the most cost-effective processes for manufacturing a component in a very responsive manner. This fact combined with another key Linamar operating philosophy



Officer's Message

of clustering plants in a tight geographic area, results in a very powerful tool: concentration of a large technically oriented population in one area. This tool allows us to throw unlimited technical manpower both at new programs requiring immediate focus and day to day problem solving. For example, of Linamar's 4,962 employees, 3,536 are located in Guelph, meaning 884 people are available to address technical concerns at any one time. Plant clustering also results in the sharing of equipment and manpower, as well as significant purchasing power concentrated in one area. This allows for improved equipment utilization, low turnover and training costs and an overall improved cost effectiveness. The model of the Guelph plant cluster is being replicated in Hungary, with Mezőgép Rt. now comprised of three operating divisions. It is anticipated that Mexico will follow a similar course.



Linamar is dedicated to employee involvement and satisfaction – we have a highly motivated workforce focused on productivity. With a total lost time per employee per year of just 4.7 days (1.8%) versus a national average of 10.6 days, our employees are clearly dedicated to growing our company, and considered an integral part of such. Employees from every area of the company contribute to Linamar's success through our cross functional continuous improvement teams. Comprehensive training programs help to further develop our employees to support our growth initiatives.

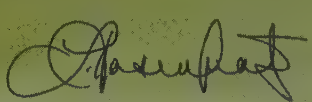
Continued focus on environmental and health & safety initiatives ensure Linamar is providing an optimal work environment in compliance with regulations.

Competitiveness in the automotive industry, as in many industries, is dictated not just by low cost on time delivery but also by a strong quality focus. Accordingly, Linamar demands QS-9000/ISO-9000 registration from all its plants. Currently 14 plants are designated as QS-9000 Registered Suppliers and the remaining 5 scheduled for registration by year-end.

In terms of our financial results for 1997, our sales for the year reached $771 million, an increase of $163 million or 26.9% from 1996, slightly in excess of our goals of 15-20% growth per year. Operating earnings increased from $86.0 million in 1996 to $134.1 million in 1997, representing an increase of 55.9%. Net earnings for the year showed an improvement from $61.6 million or $2.76 per share in 1996 to $108.4 million or $4.75 per share in 1997 (EPS before the following non-recurring gains $2.45 in 1996 and $3.90 in 1997). Exclusion of non-recurring gains in 1996 due to the divestiture of our North American agricultural business and in 1997 due to the Mezőgép Rt. public offering of $10.8 million and $19.4 million respectively brings the year over year increase in net earnings to 62.7%. Net cash generated from operating activities was $146.9 million as compared to the $128.5 million generated in 1996. Cash generated from operations of $144.5 million was more than sufficient to cover the payments for capital asset purchases of $88.4 million. Annual return on average shareholders equity was 36.9% for 1997 compared to 29% in 1996, the fifth straight year we have exceeded our goal of 20%.

1997 was a year of significant accomplishment for Linamar, many already noted. Of special note is the establishment of our first dedicated assembly facility, LPP Manufacturing. This engine assembly plant broke all records by producing their first engine 88 days after ground was broken to build the facility, an event occurring just 3 weeks after signing the purchase agreement with our customer. This achievement is testament to the kind of dedication and teamwork typical of a Linamar plant.

1998 promises to be a rewarding year for Linamar as we continue to focus on providing financial satisfaction to our shareholders while maintaining strong employee and customer satisfaction.



Linda Hasenfratz
Chief Operating Officer

Management's Responsibility for Consolidated Financial Statements

The management of Linamar Corporation is responsible for the preparation of all information included in this annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Financial information included elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a system of internal accounting controls to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded.

The Company's external auditors, appointed by the shareholders, have prepared their report which outlines the scope of their examination and expresses their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Company. The Audit Committee meets with management and with the auditors to discuss accounting policy, auditing and financial reporting matters. The Committee reports its findings to the Board of Directors for their consideration in reviewing and approving the consolidated financial statements for issuance to the shareholders.

Frank J. Hasenfratz	Linda Hasenfratz
Chief Executive Officer	*Chief Operating Officer*
February 12, 1998	

Auditors' Report to the Shareholders of Linamar Corporation

We have audited the consolidated balance sheets of Linamar Corporation as at December 31, 1997 and December 31, 1996 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and December 31, 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants
Waterloo, Ontario
February 12, 1998

Consolidated Balance Sheets

As at December 31, 1997 (thousands of dollars)

	December 31 1997	December 31 1996
ASSETS		
Current Assets		
Cash and short-term investments	$ 109,750	$ 26,178
Accounts receivable	109,799	84,935
Inventories *(Note 3)*	67,688	48,306
Prepaid expenses	952	493
	288,189	159,912
Investment in Preference Shares, at cost	1,143	-
Capital Assets (Notes 4 and 5)	242,594	204,486
	$ 531,926	$ 364,398
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 128,549	$ 80,051
Income taxes	14,967	13,642
Current portion of long-term debt *(Note 5)*	2,029	10,255
Advance payments from customers	2,470	3,476
	148,015	107,424
Long-Term Debt (Note 5)	6,358	7,802
Future Income Taxes	11,322	7,621
Non-Controlling Interests	19,645	850
	185,340	123,697
Contingent Liabilities (Note 8)		
SHAREHOLDERS' EQUITY		
Capital Stock (Note 6)	71,119	64,455
Retained Earnings	275,467	176,246
	346,586	240,701
	$ 531,926	$ 364,398

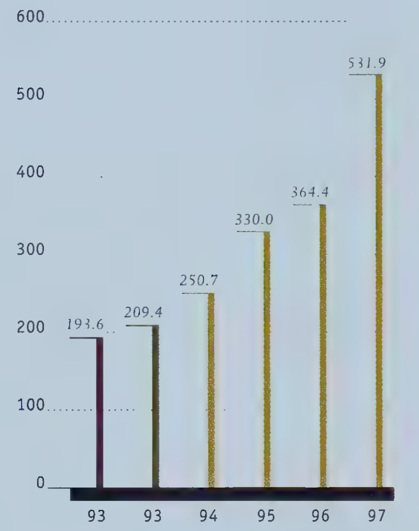
The accompanying notes are an integral part of these statements.

On behalf of the Board of Directors

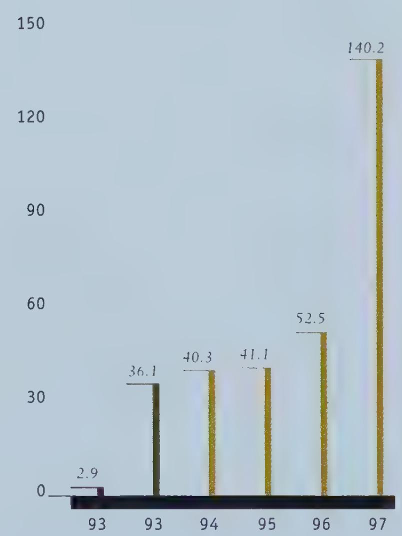
Frank J. Hasenfratz
Director

Hugh Guthrie
Director

Total Assets
$ (Millions)



Working Capital
$ (Millions)

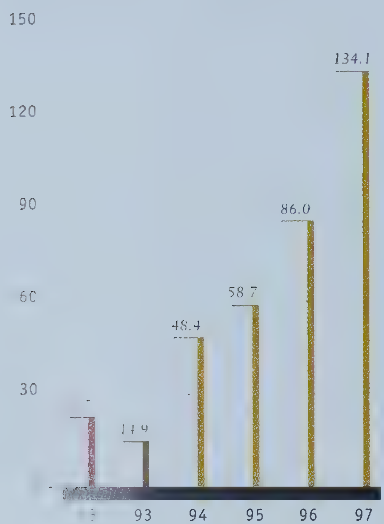


Year ended June 30

Six months ended Dec. 31

Years ended Dec. 31

Operating Earnings
$ (Millions)



Earnings Per Share

Year ended June 30

Six months ended Dec. 31

Years ended Dec. 31

Consolidated Statements of Retained Earnings

For the year ended December 31, 1997 (thousands of dollars)

	December 31 1997	December 31 1996
Balance - Beginning of Year as Restated (Note 2)	$ 176,246	$ 121,808
Net earnings for the year	108,364	61,592
	284,610	183,400
Dividends	9,143	7,154
Balance - End of Year	$ 275,467	$ 176,246

The accompanying notes are an integral part of these statements.

Consolidated Statements of Earnings

For the year ended December 31, 1997 (thousands of dollars)

	December 31 1997	December 31 1996
Sales	$ 771,414	$ 607,692
Cost of Sales and Operating Expenses Before the Following:	549,836	447,551
Depreciation and amortization	49,367	40,489
Selling, general and administrative	38,066	33,663
	637,269	521,703
Operating Earnings	134,145	85,989
Other Income (Expense)		
Dilution gain on issuance of shares by a subsidiary *(Note 11)*	19,419	-
Gain on disposal of business unit *(Note 11)*	-	10,824
Interest earned	4,675	1,065
Other income	520	847
Interest on long-term debt	(400)	(1,000)
Other interest expense	(525)	(1,218)
	23,689	10,518
	157,834	96,507
Provision for Income Taxes (Note 7)		
Current	43,019	29,658
Future	3,701	4,006
	46,720	33,664
	111,114	62,843
Non-Controlling Interests	2,750	1,251
Net Earnings for the Year	$ 108,364	$ 61,592
Earnings Per Share (Note 12)		
Net earnings for the year	$ 4.75	$ 2.76

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

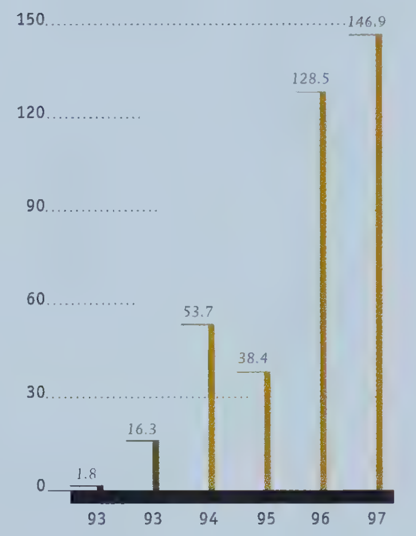
For the year ended December 31, 1997 (thousands of dollars)

	December 31 1997	December 31 1996
Operating Activities		
Net earnings for the year	$ 108,364	$ 61,592
Charges (credits) to earnings not involving cash:		
Depreciation and amortization	49,367	40,489
Future income taxes	3,701	4,006
Non-controlling interests	2,750	1,251
Gain on disposal of capital assets	(306)	(369)
Dilution gain on issuance of shares by a subsidiary	(19,419)	-
Gain on disposal of business unit	-	(10,824)
	144,457	96,145
Net change in non-cash working capital balances related to operations	2,482	32,335
	146,939	128,480
Financing Activities		
Proceeds from long-term debt	591	897
Repayment of long-term debt	(10,261)	(10,886)
Proceeds from common share issuance	6,664	1,273
Dividends to shareholders	(9,143)	(7,154)
Dividends by subsidiaries to non-controlling interests	(237)	(1,776)
	(12,386)	(17,646)
Investing Activities		
Purchase of capital assets	(88,358)	(89,497)
Proceeds from disposal of capital assets	3,056	801
Investment in preference shares	(1,143)	-
Proceeds on issuance of shares by a subsidiary	35,464	-
Investment by minority shareholders	-	1,247
Proceeds from disposal of business unit	-	25,400
	(50,981)	(62,049)
Increase in Cash and Short-Term Investments	83,572	48,785
Cash and Short-Term Investments (Bank Advances) - Beginning of Year	26,178	(22,607)
Cash and Short-Term Investments - End of Year	$ 109,750	$ 26,178

The accompanying notes are an integral part of these statements.

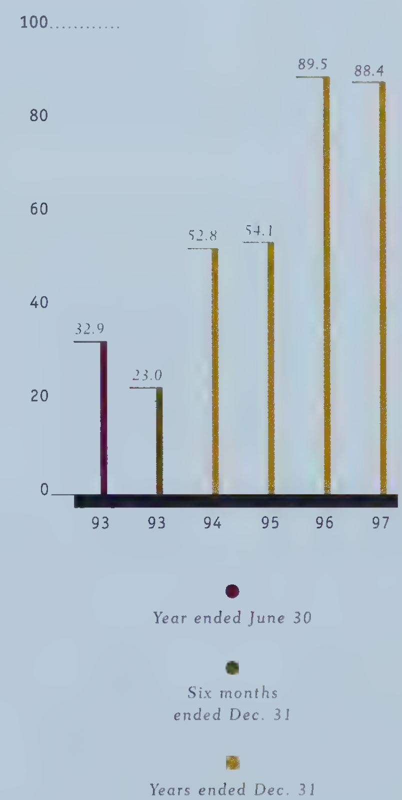
Cash from Operating Activities

$ (Millions)



Capital Expenditures

$ (Millions)



Notes to Consolidated Financial Statements

For the year ended December 31, 1997

1. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a consistent basis.

Basis of Consolidation

These consolidated financial statements include the accounts of the company and its subsidiaries. Acquisitions are accounted for using the purchase method.

Cash and Short-Term Investments

Short-term investments are stated at the lower of cost and market. Short-term investments of $111,950,885 and $10,964,800 at December 31, 1997 and 1996 respectively consisted of government securities, bank short-term deposits and commercial paper.

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value.

Capital Assets and Depreciation

Capital assets are recorded at cost. Depreciation is charged to earnings in amounts sufficient to amortize the cost of capital assets over their estimated useful lives using the diminishing balance and straight-line methods as follows:

Buildings	5% diminishing balance
Machinery	straight-line over 5 years or 20% to 25% diminishing balance
Office equipment	20% diminishing balance
Vehicles	30% diminishing balance
Tooling	straight-line over 1 year

Patents and Licences

Patents are recorded at cost and are amortized on a straight-line basis over a period of 17 years. Licences are recorded at cost and are amortized on a straight-line basis over a period of 3 years.

Income Taxes

Income taxes are provided, at current rates, for all items included in the statement of earnings regardless of the period in which such items are reported for income tax purposes. The principal item which results in timing differences between financial and tax reporting purposes is depreciation. Future income taxes are adjusted for current changes in income tax rates.

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Pension Costs

The company has various contributory and non-contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue.

Earnings Per Share

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the year. The average number of shares outstanding was 22,831,554 in 1997 (1996 - 22,323,092).

Foreign Currency Translation

The company enters into forward exchange contracts to limit its exposure under contracted US$ net cash inflows. These contracts are treated as hedges. The monetary assets and liabilities of the company which are denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings except those which relate to hedges of future net cash flows. The company's foreign operations are of an integrated nature and the company uses the temporal method to translate the accounts of its subsidiaries.

Revenue Recognition

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of tooling is recognized once the tooling is substantially complete and the customer approves the initial production sample.

Research and Development

Research costs are expensed as incurred. Development costs are expensed as incurred but would not be expensed if they met the criteria under generally accepted accounting principles for deferral and amortization.

2. Change In Accounting Policy *(thousands of dollars)*

The company has adopted the new requirements of the Canadian Institute of Chartered Accountants with respect to the accounting for future income taxes. The change has been applied retroactively and prior periods have been restated to reflect this change.

The effects of this change are as follows:

	December 31 1997	December 31 1996
Decrease in net earnings	$ 38	$ 16
Increase in beginning retained earnings	$ 619	$ 635

3. Inventories *(thousands of dollars)*

	December 31 1997	December 31 1996
Raw materials	$ 33,201	$ 18,107
Work-in-process	23,033	19,986
Finished goods	11,454	10,213
	$ 67,688	$ 48,306

4. Capital Assets *(thousands of dollars)*

	December 31 1997			December 31 1996
	Cost	Accumulated depreciation	Net	Net
Land	$ 4,211	$ -	$ 4,211	$ 3,571
Buildings	38,067	8,606	29,461	24,903
Machinery	357,896	156,547	201,349	169,966
Office equipment	5,598	2,826	2,772	1,899
Vehicles	1,266	647	619	456
Tooling	17,958	13,776	4,182	3,691
	$ 424,996	$ 182,402	$ 242,594	$ 204,486

As at December 31, 1997, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $22 million.

5. Long-Term Debt *(thousands of dollars)*

	December 31 1997	December 31 1996
Interest free loan payable in annual instalments of $1,100,000 in 1998, 1999 and 2000 and $1,074,248 in 2001	$ 4,374	$ 4,974
Interest free loans	579	579
Interest free loan payable in Hungarian forints 200,000,000 in annual instalments of 40,000,000 beginning in 1998	1,410	819
Bank term loan, payable in blended monthly instalments of $60,426 with interest at the lending bank's prime interest rate plus 1.375% and a final payment of $950,000 in September, 1999	1,992	2,569
Bank term loan US$ 2,000,000, with interest at 7.52%	-	2,741
Bank term loan US$ 4,570,000, with interest at 6.75%	-	6,263
Other	32	78
Deferred exchange gain	-	34
	8,387	18,057
Less: Current portion	2,029	10,255
	$ 6,358	$ 7,802

5. Long-Term Debt (continued) *(thousands of dollars)*

Principal payments required to meet long-term obligations in the next five years are as follows:

Year ending December 31,	1998	$ 2,029
	1999	2,759
	2000	1,382
	2001	1,356
	2002	282

Specific machinery is pledged as security for the interest free loans and the bank term loan.

The company is committed under certain long-term operating leases. Future minimum lease payments under these operating leases are as follows:

Year ending December 31,	1998	$ 2,528
	1999	2,206
	2000	1,896
	2001	1,583
	2002	880
	Thereafter	877

ital Stock

npany is incorporated under the Ontario Business Corporation Act in Canada and is authorized to issue an unlimited number of and special shares.

the employee incentive plan, the Company granted options during the year on common shares. These options, which remained ding at year-end, can be exercised as follows:

511,000 at $78.12 a share before January 15, 2003

cmber 31, 1997, under the employee incentive plan, the Company also had options outstanding which can be exercised as follows:

290,000 at $10.75 a share before February 1, 1998

276,500 at $17.50 a share before June 1, 1999

365,000 at $22.41 a share before February 21, 2001

562,000 at $33.51 a share before January 11, 2002.

the year, options for 600,000 common shares were exercised giving proceeds of $6,664,100.

	December 31 1997	December 31 1996
Issued (thousands of dollars)		
22,960,092 common shares (1996 - 22,360,092)	$ 71,119	$ 64,455

7. Income Taxes

The company's effective tax rate is made up as follows:

	December 31 1997	December 31 1996
Combined basic Canadian Federal and Provincial income tax rate	43.50%	43.50 %
Increase (decrease) in the income tax rate resulting from:		
Manufacturing and processing reduction	(9.00)	(9.00)
Federal income surtax	1.12	1.12
Effect of foreign earnings	(1.36)	(2.29)
Effect of dilution gain	(4.15)	0.00
Miscellaneous	(0.51)	1.55
Effective income tax rate	29.60%	34.88 %

8. Contingent Liabilities

The company is involved in certain lawsuits and claims. Management is of the opinion that there will not be any significant additional liability other than amounts already provided for in these financial statements.

9. Related Party Transactions

Included in the purchase of capital assets are the construction of a building, building additions and building improvements in the aggregate amount of $5.2 million (1996 - $5.7 million) by a company owned by the spouse of a member of management. Included in cost of sales are lease costs of $0.7 million (1996 - $0.6 million) related to properties leased from a company owned by two members of management.

10. Financial Instruments

Foreign Currency Risk

The company enters into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future net cash flows of U.S. dollars from operations. The purpose of the company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. At December 31, 1997, the company was committed to a series of monthly forward exchange contracts maturing during the following three years as noted below. At December 31, 1997, the net unrecognized loss was approximately $8 million. As these forward exchange contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in earnings as the sales and expenses which generate the net cash flow occur.

Year	*Amount Hedged*	*Average Exchange Rate*
1998	$167,000,000	1.4044
1999	$168,000,000	1.3969
2000	$168,000,000	1.3990

Credit Risk

At December 31, 1997 the accounts receivable from the company's three largest customers amounted to 23.3%, 8.3% and 11.5% of accounts receivable (1996 - 34.2%, 15.3% and 5.8%).

Fair Value

At December 31, 1997, the carrying values reported in the balance sheet for cash and short-term investments, accounts receivable and current liabilities approximate fair value due to the short-term nature of those instruments. The fair values of the investment in preference shares and the long-term debt are not significantly different from carrying values.

11. Other Income *(thousands of dollars)*

In 1997, other income included the dilution gain on issuance of shares by the company's Hungarian subsidiary. In 1996, other income included the gain on disposal of the business unit comprised of the North American portion of the company's agricultural segment. The effects on basic earnings per share of these gains in 1997 and 1996 were approximately $0.85 and $0.31 respectively.

12. Fully Diluted Earnings Per Share

If it were assumed that the options had been exercised at the beginning of the year, then the earnings per share would have been $4.52 1996 - $2.62). This calculation assumes an after-tax rate of return of approximately 6.0% on the funds which would have been received.

13. Segmented Information

The company currently operates in two significant industry segments.

ːc precision machining segment consists primarily of the manufacturing and assembly of automotive components for original equipment ıanufacturers and their suppliers. Substantially all automotive revenue is derived from sales to major North American manufacturers. In the year ended December 31, 1997, sales to the company's largest customers amounted to 34.0%, 15.0% and 9.1% of total sales revenue - 33.6%, 13.5% and 8.5%). The agricultural equipment segment consists of the assembly and sale of harvesting equipment.

Year ended December 31
1997

	Industry Segments			*Geographic Segments*	
	Precision Machining	Agricultural Equipment	Total	Canada	Hungary
revenue	$ 734,830	$ 36,982		$ 729,343	$ 55,356
-segment sales	149	249		747	12,538
to customers outside the company	$ 734,681	$ 36,733	$ 771,414	$ 728,596	$ 42,818
perating earnings	$ 127,663	$ 6,482	$ 134,145	$ 127,264	$ 6,881
lentifiable assets	$ 492,813	$ 39,109	$ 531,926	$ 477,708	$ 54,218
Capital expenditures	$ 87,605	$ 753	$ 88,358	$ 83,247	$ 5,111
eciation and amortization	$ 48,713	$ 654	$ 49,367	$ 47,501	$ 1,866

egment sales are accounted for at prices comparable to open market prices for similar products.

Year ended December 31
1996

	Industry Segments			*Geographic Segments*	
	Precision Machining	Agricultural Equipment	Total	Canada	Hungary
Total revenue	$ 565,153	$ 42,674		$ 589,290	$ 36,715
Inter-segment sales	5	130		574	17,739
Sales to customers outside the company	$ 565,148	$ 42,544	$ 607,692	$ 588,716	$ 18,976
Operating earnings	$ 84,130	$ 1,859	$ 85,989	$ 79,530	$ 6,459
Identifiable assets	$ 339,745	$ 24,653	$ 364,398	$ 329,208	$ 35,190
Capital expenditures	$ 89,365	$ 132	$ 89,497	$ 83,961	$ 5,536
Depreciation and amortization	$ 39,694	$ 795	$ 40,489	$ 39,263	$ 1,226

Export sales from Canada to the United States amounted to $658.8 million (1996 - $518.1 million).

Export sales from Canada to Europe and Asia amounted to $2.0 million (1996 - $2.7 million).

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements.

Linamar Corporation and its subsidiaries (collectively, "the Company") operate in two business segments. The primary segment, which is the precision machining segment, is a supplier of assemblies and precision machined parts, mainly to the North American automotive industry. Through the automotive section of this segment, the Company manufactures components and parts for a wide range of platforms for automobiles, light, medium and heavy duty trucks. These components and parts are primarily for transmissions, engines, steering, axles, drivelines, brakes, and suspension systems. The North American precision machining business is centred in Guelph, Ontario where the Company operates 15 plants and employs approximately 3,500 persons. The automotive and light truck customers include General Motors, Ford, Chrysler, Honda and Toyota. The other truck components are produced for the North American diesel engine market. During 1997, the Company through its LPP Manufacturing division established a dedicated assembly facility in Guelph. LPP will assemble small gasoline engines for power generation for portable welders, motor homes and other applications. This provides the Company with further expertise in assembly and opens up new opportunities in the crankshaft and camshaft components market. The European precision machining business, a division of Mezőgép Rt., is located in Orosháza, Hungary where the Company operates one plant. The European automotive industry is supplied from the Company's manufacturing operations in both Hungary and Ontario.

A variety of transmission components

The Company's other business segment, the agricultural equipment segment, includes Mezőgép Rt.'s agricultural divisions located in Hungary at Orosháza and Békéscsaba. Through this segment, the Company manufactures and supplies corn heads and other components for combines to the agricultural industry in Western and Eastern Europe, North America and Asia. In July 1996 through an asset sale, the Company sold to AGCO Corporation the North American agricultural business unit of this segment. Pursuant to a transitional agreement with AGCO Corporation, until December 1997, the Company continued to operate using the equipment and technology sold to AGCO. During this time, the Company was promptly reimbursed by AGCO as the Company incurred costs in manufacturing equipment and performing engineering services for the benefit of AGCO. In December 1997, Linamar ceased its agricultural activity in North America. Linamar has retained the agricultural equipment business conducted by Mezőgép Rt.

Consolidated Results of Operations

Revenues

The Company's consolidated revenues in the year ended December 31, 1997 totalled $771.4 million. Consolidated revenues in the year ended December 31, 1996 totalled $607.7 million, compared to $545.8 million for the year ended December 31, 1995. The increases in revenues resulted primarily from increases

in the automotive section of the precision machining segment. The Company continued to increase its volume of existing business in the truck and automobile markets. In the precision machining segment, the growth in 1997 resulted from increased revenues from all customers, consisting of increased volumes in existing business and also new business opportunities. The growth was spread among components for transmissions, engines, drivelines, axles and steering. In 1996, the Company continued to increase production under a new transmission contract obtained in 1995. Production also began under 1996 transmission and engine component contracts. In 1995, the Company began production of a number of transmission components. The sales volumes of ABS brake components, commenced in 1994, increased in 1995 and have remained relatively stable since.

The Company's precision machining segment's sales during the year ended December 31, 1997 were realized at an average rate of $61.2 million a month compared to an average rate of $47.1 million a month for the year ended December 31, 1996 and $40.6 million a month during the year ended December 31, 1995. These increases resulted from a continuing growth in the volumes of both new and existing business. In 1997, the production of components for transmissions, engines and steering increased over 1996 by approximately 25% each, while the production for drivelines and axles increased by 197% and 67% respectively. In 1996, the largest single contributor to increased sales was approximately $50 million of additional sales of transmission components related to contracts obtained during 1996 and 1995.

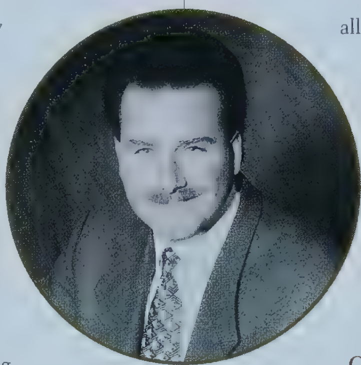
W. George Sims,
Chief Financial Officer

In 1996, an opportunity arose to sell the North American agricultural business unit. The Company completed this transaction to allow the Company to devote its resources to the more successful precision machining segment. During the year ended December 31, 1997, sales by the agricultural segment totalled $36.7 million, a decrease from the prior year. These 1997 sales all resulted from manufacturing at the Mezőgép Rt. facility in Hungary. The manufacturing segment is now profitable. For the year ended December 31, 1996, the agricultural segment's sales to North American and Western European markets totalled $42.5 million compared to sales for the year ended December 31, 1995 in the amount of $48.7 million. During the year ended December 31, 1996, the agricultural segment was only marginally profitable. During each of the previous two years, proceeds from the agricultural equipment segment's sales were not sufficient to cover the costs of production. The North American agricultural business unit made no sales to Eastern Europe and Asia during the years ended December 31, 1997 and 1996 compared to $10.0 million for the year ended December 31, 1995. The Company had been unable to market its agricultural products in Eastern Europe and Asia at a margin adequate to cover the additional costs associated with the collection of accounts receivables and distribution costs in those markets. In 1995, the Company ceased attempts to develop those markets directly, and sold its rights to market Western Combine's products in Eastern Europe and related investments in joint ventures to a company controlled by Western Combine's former president.

Cost of Sales

The Company's cost of sales, excluding depreciation and amortization, as a percentage of total revenues decreased to 71.3% for the year ended December 31, 1997 from 73.6% for the year ended December 31, 1996 and 77.9% for the year ended December 31, 1995. The improvement in the margins in 1997 was attributable mainly to the precision machining segment which experienced better margins on some short-term contracts and, to a lesser degree, to the effect of using consigned rather than purchased material to service certain contracts. During 1997, the Company had only one machining plant that was in a start-up

mode throughout the year. Further improvement was achieved from the decrease in the proportion of the Company's lower margin agricultural business. The improvement in 1996 was a result of a combination of factors. The Company realized significant improvements in those plants that had been in start-up mode during 1995. These improvements came through a combination of working through the learning curve on a number of new lines and the ramping up of contracts towards full production. A shift in the mix of business from using purchased material to machining consigned material contributed to 30% of the 4.3% decrease. The margins on machining consigned material are higher than on machining purchased material because the value-added percentage is higher. The lower margins in 1995 were caused by lower margins in three plants that had significant programs in start-up mode during 1995. Although substantial improvements had been achieved by the 1995 year end, these programs had not been able to meet targeted profit levels. Efforts to improve margins, particularly at these plants, continued into 1996. These efforts consist of working with employees, suppliers and customers to improve the processes to achieve appropriate margins.



Mark Stoddart,
Director of Marketing

Depreciation and Amortization

For the year ended December 31, 1997 depreciation and amortization costs were $49.4 million, or 6.4% of sales. For the year ended December 31, 1996, depreciation and amortization costs were $40.5 million, or 6.7% of sales. Depreciation and amortization costs were $30.1 million, or 5.5% of sales for the year ended December 31, 1995. These changes result from the Company's continued high level of investment in capital equipment as detailed in the segmented information note in the accompanying financial statements. Depreciation compared to the average net book value of capital assets was 22.1%, 21.9% and 20.7% in 1997, 1996 and 1995 respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $38.1 million or 4.9% of revenues during the year ended December 31, 1997 compared to $33.7 million or 5.5% of revenues during the year ended December 31, 1996 and to $32.0 million or 5.9% of revenues during the year ended December 31, 1995. As expected, the 1997 level of selling, general and administrative expenses as a percentage of sales has returned to normal. During 1996, these expenses included final allowances of $4.3 million or 0.7% of sales related to uncollected receivables from previous years' sales by Western Combine to Eastern Europe and Asia. During the year ended December 31, 1995, those same expenses included allowances for doubtful accounts of $6.6 million and commissions payable of $0.3 million related to similar sales. These extra expenses totalled 1.3% of sales. No sales to Eastern Europe and Asia have been made by Western Combine since 1995, as discussed above.

Operating Earnings

The above-noted factors contributed to an increase in the Company's operating earnings for the year ended December 31, 1997 to $134.1 million, or 17.4% of sales, from $86.0 million, or 14.2% of sales, for the year ended December 31, 1996. The Company's operating earnings for the year ended December 31, 1995 were $58.7 million, or 10.8% of sales. In 1997, the Company redefined operating earnings to exclude interest expense and recalculated operating earnings for prior years.

Interest Expense

Total interest expense for the year ended December 31, 1997 was $0.9 million. Total interest expense for the year ended December 31, 1996 was $2.2 million compared to $3.6 million for the year ended December 31, 1995. During the year ended

December 31, 1997, the Company's requirements for debt decreased significantly and two outstanding long-term loans were repaid with the result that interest expense has continued to decline. Note 5 in the accompanying consolidated financial statements sets out the details of the long-term debt. During the year ended December 31, 1996, the average short-term interest rates decreased by approximately 29%. This resulted in a decrease in interest expense on short-term debt. In 1996, interest on long-term debt decreased by $0.6 million because the amount of interest bearing long-term loans decreased. During the year ended December 31, 1995, an increase in average short-term interest rates of approximately 28% resulted in an increase in interest expense on short-term debt. Although short-term borrowing fluctuated throughout 1996, the average short-term borrowing remained at a similar level to the prior year. In 1995, certain bank loans, came due, and were renewed at higher rates than had been available in the prior year. The Company also borrowed an interest bearing debt in 1995 in the principal amount of US$4.57 million under an existing facility. This loan was repaid in 1997.

Michael Annable,
Director of Human Resources

Other Income

For the year ended December 31, 1997, other income was comprised mainly of a non-recurring dilution gain of $19.4 million on the dilution of the Company's interest in its Hungarian subsidiary, Mezőgép Rt. through Mezőgép Rt.'s public share issuance. For the year ended December 31, 1996, other income was comprised mainly of a non-recurring gain of $10.8 million on the sale of the North American agricultural business unit. These non-recurring events added $0.85 and $0.31 to the earnings per share for 1997 and 1996 respectively. In both years, the balance of other income was interest earned and the net gain on the disposal of capital assets. For the year ended December 31, 1995, other income was mainly comprised of the net gain on the disposal of capital assets and interest earned.

Income Taxes

The federal incentive for manufacturing and processing remained unchanged in the years ended December 31, 1997, 1996 and 1995. Also in each of these years, the Company had a reduction in its effective tax rate as a result of the lower income tax rates in other countries in which the Company operates. In particular, Mezőgép Rt. has been granted full relief from income taxes until December 31, 2001 as long as it continues to meet certain general growth targets set by the Hungarian government. However, this benefit had a reduced effect in 1997 due to the continuing growth in the proportion of the Company's earnings in Canada. It is expected that this benefit will continue to diminish somewhat as the Company's proportion of earnings earned in Canada continues to increase further over time. There was no tax effect related to the non-recurring gain recorded as a result of the Mezőgép Rt. public share issuance since the Company has no plans to sell any Mezőgép Rt. shares.

Net Earnings

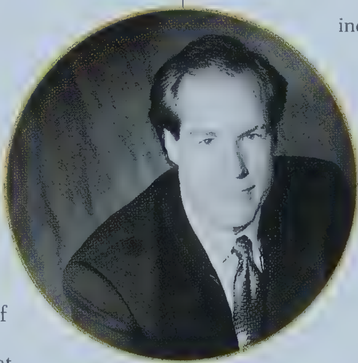
The Company's net earnings for the year ended December 31, 1997 were $108.4 million, or 14.0% of sales, compared to net earnings for the year ended December 31, 1996 of $61.6 million, or 10.1% of sales, and net earnings of $37.5 million, or 6.9% of sales, for the year ended December 31, 1995. The increase in 1997, as compared to 1996, resulted mainly from the improvements in the precision machining segment and the non-recurring dilution gain on the public share issuance by Mezőgép Rt. Linamar continued to benefit from its increasing investment in capital assets (see discussion below) and better utilization of its productive capacity. Without the non-recurring gain, the Company's net earnings for the year ended December 31, 1997 would have been $89.0 million, or 11.5% of sales. The increase in 1996, as compared to 1995, resulted mainly

from the improvements in the precision machining segment and the non-recurring gain on the sale of the North American agricultural business unit. Linamar continued to benefit from its increasing investment in capital assets and better utilization of its productive capacity. Without the non-recurring gain, the Company's net earnings for the year ended December 31, 1996 would have been $54.6 million, or 9.0% of sales. The lower ratio of earnings as a percent of sales in 1995 came as a result of the difficulties experienced at three of the North American precision machining plants. These facilities had significant projects in start-up mode and had not yet achieved margins consistent with the level of the Company's other facilities.

Capital Resources and Liquidity

Cash, Short-Term Investments and Bank Advances

The Company's net cash position at December 31, 1997 was $109.8 million. This was an increase of $83.6 million over the Company's net cash position at December 31 , 1996. The receipt of $35.5 million of proceeds in March 1997 on the issuance of shares by Mezőgép Rt. improved the cash position substantially.



Jim Jarrell,
Group Vice President

The cash position in the precision machining segment steadily increased throughout 1997. During the year, the Company accumulated cash in excess of its current needs for operating activities. As stated in note 1 to the financial statements, this cash was invested in short-term government securities, bank deposits and high grade commercial paper. Cash flow in the precision machining segment was sufficient throughout 1996 to meet the payment for expenditures on capital assets. Although there was some disruption in the normal cash flow over the 1997 year end due to the effects of the automotive shutdown, the effects on the cash position were not as significant as in some prior years. In the first five business days after the 1997 year end, the Company received approximately $15.7 million from its major customers. In a normal month, most of these cash receipts would be received prior to the month end.

The cash position of the agricultural equipment segment in 1997 varied with the seasonality of its business. The segment builds inventories for summer sales and collects its accounts receivable through the fall.

The Company's net cash position at December 31, 1996 was $26.2 million. This was an increase of $48.8 million over the Company's net cash position at December 31, 1995 when the Company had outstanding bank advances of $22.6 million. The cash position in the precision machining segment steadily increased throughout 1996. Also, the regular monthly cash receipts for December were received in December 1996, and not in early 1997. Cash flow in the precision machining segment was sufficient throughout 1996 to meet the payment for expenditures on capital assets. In 1995, the Company experienced delays in payment from its major automotive customers in December as most of their facilities shut down for the year by December 23. In the first five business days after the 1995 year end, the Company received $14.5 million from its major customers. In a normal month, these cash receipts would be received prior to the month end.

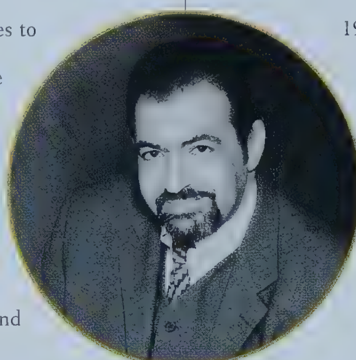
The cash position of the agricultural equipment segment in 1996 varied with the seasonality of its business as noted above. The receipt of $25.4 million of proceeds in July 1996 on the sale of the North American agricultural business unit improved the cash position substantially.

Accounts Receivable

The accounts receivable balance of $109.8 million at the end of December 1997 is $24.9 million or 29.3% higher than the level as at December 31, 1996. This increase was a result primarily of

the 26.9% increase in sales volume. The accounts receivable for the year ended December 31, 1997 were at the level of 14.2% of sales, as compared to 14.0% of sales for 1996 and to 18.7% of sales for the year ended December 31, 1995. The accounts receivable balance of $84.9 million at the end of December 1996 was $16.9 million or 16.6% lower than the level as at December 31, 1995. This improvement was primarily a net result of the effects of the prompt collection of the December 1996 receivables (noted above) and the sale of the North American agricultural business unit, which were partially offset by the 11.3% increase in sales volume.

At December 31, 1997, the accounts receivable from the Company's three largest customers amounted to 23.3%, 8.3% and 11.5% of the year end accounts receivable while sales to those customers were 34.0%, 15.0% and 9.1% of the company's sales, respectively. At December 31, 1996, the accounts receivable from the company's three largest customers amounted to 34.2%, 15.3% and 5.8% of the year end accounts receivable [illegible]ile sales to those customers were 33.6%, 13.5% and [illegible] of the Company's sales, respectively. As noted [illegible] there was some difficulty in receiving cash in [illegible] few days immediately prior to December 31, 1997 [illegible] that has significantly impacted the 1997 year end accounts [illegible]eivable percentages.



Nick Efthimakis,
Group Vice President

Inventories

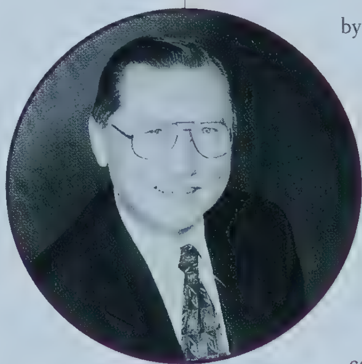
Inventories were $67.7 million at December 31, 1997, which represented an increase of $19.4 million over the $48.3 million level as at December 31, 1996. In 1997, there was an increase in sales volume of approximately 30.0% in the precision machining segment, and inventories in this segment increased by 37.8%. This occurred because the new assembly facility was carrying approximately $10.2 million in inventory at year end. As the facility commenced production in November 1997, its sales were only $4.8 million by year end. As the new assembly facility establishes its sources for material, it is expected that it will be able to reduce its concentration of inventories. However, it will still carry more inventories to support its sales than is necessary in a typical machining plant. The balance of the increase in inventories is attributable to the increased production volumes. Inventories were $48.3 million at December 31, 1996, which represented a decrease of $13.7 million over the $62.0 million level as at December 31, 1995. In 1996, although there was an increase in sales volume of approximately 15.4% in the precision machining segment, inventories in this segment only increased by 4.8%. This occurred because over 50% of the increase arose from sales for which the material was consigned. This decrease of $13.7 million during 1996 mainly resulted from the sale of the North American agricultural business. At December 31, 1996, the level of agricultural equipment inventories was $4.7 million as compared to $20.5 million at December 31, 1995. The very high level of inventories in this segment at the end of 1995 resulted from inventories which were produced for the Eastern European market but which were not shipped as satisfactory terms for ensuring collection of receivables could not be arranged. In 1996, these inventories were modified to conform to 1996 model standards and 1996 agricultural production was appropriately reduced prior to the sale of the business.

Capital Assets

The Company's net book value of capital assets, as at December 31, 1997, was $242.6 million, being $38.1 million greater than the $204.5 million net book value of capital assets as at December 31, 1996. The purchases of capital assets in 1997 totalled $90.2 million. Of these purchases, $89.5 million was invested in the precision machining segment, comprised mainly of machinery and tooling purchases. These investments primarily related to the production of drivelines, transmission components,

engines, and steering components. The balance of the 1997 capital asset investment in the precision machining segment related primarily to the Company's construction of the new LPP assembly facility and the addition to the Vehcom plant for a total cost of approximately $4.5 million. These investments provide an additional manufacturing floor space of 140,000 square feet. These plants are part of the precision machining facilities located in Guelph, Ontario. For $1.2 million, the Company also purchased a small manufacturing facility located on 7.9 acres of land adjacent to the LPP assembly plant. This property, which is currently used for prototype production, is available for future plant expansion. In 1997, the Company made payments of approximately $88.4 million for capital assets. These payments for purchases of capital assets were funded through cash from operating activities.

The Company's net book value of capital assets, as at December 31, 1996, was $204.5 million, being $38.9 million greater than the $165.6 million net book value of capital assets as at December 31, 1995. In 1996, the Company purchased fixed assets totalling $80.4 million. Of these purchases, $79.8 million was invested in the precision machining segment, comprised mainly of machinery and tooling purchases. These investments primarily related to the production of transmission components, engine blocks, various engine parts and steering components. The balance of the 1996 capital asset investment in the precision machining segment related primarily to the Company's construction of the new Cemtol manufacturing facility and additions to the Autocom, Vehcom and Transgear plants for a total cost of approximately $5.0 million. These plants are precision machining facilities located in Guelph, Ontario. In 1996, the Company made payments of approximately $89.5 million for capital assets. These payments for purchases of capital assets were funded through cash from operating activities.



Walter Stachnyk,
Group Vice President

Other Assets

In 1997, the Company invested $1.143 million in 5% preference shares in a new customer of its subsidiary Mezőgép Rt. These shares are fully redeemable at the option of the Company in equal amounts over the next five years. This new customer has already ordered approximately $0.6 million in pickup headers from Mezőgép Rt. for the 1998 fiscal year.

Working Capital

Working capital at December 31, 1997 was $140.2 million, an increase of $87.7 million over December 31, 1996. The proceeds from the Mezőgép Rt. public offering increased working capital by $35.5 million. The working capital at December 31, 1996 was $52.5 million, an increase of $11.4 million over the working capital at December 31, 1995. The sale of the agricultural segment's business unit in 1996 provided approximately $10 million in additional working capital. The remaining increases, in both 1997 and 1996, are considered to be within the Company's normal operating limits.

Financial Resources

The Company's financial position continued to strengthen during 1997. At the end of the year, long-term debt accounted for only 2.4% of total capitalization. During the year ended December 31, 1997, cash provided from operating activities increased by $18.4 million to $146.9 million. As in previous years, the funds from operating activities were primarily used to fund purchases of capital assets. Funds from operations increased by $48.4 million during 1997, from $96.1 million to $144.5 million over the previous year, and the non-cash working capital provided by operations in 1997 decreased by $29.8 million, to $2.5 million at December 31, 1997 from $32.3 million at December 31, 1996.

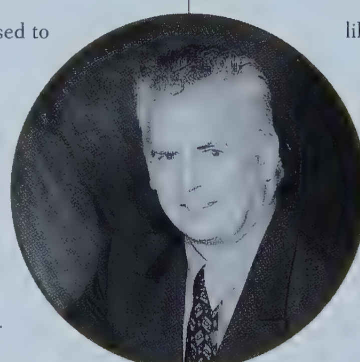
The Company also received proceeds of $35.5 million from the issuance of shares by Mezőgép Rt. The Company repaid $10.3 million in long-term debt and paid dividends of $9.1 million in 1997. At December 31, 1997, the Company had available approximately $80 million of short-term bank credit facilities. The Company continues to service both its long-term and short-term indebtedness with cash produced by its operating activities.

The Company's financial position had continued to strengthen through 1996. At the end of that year, long-term debt accounted for only 7.0% of total capitalization. During the year ended December 31, 1996, cash provided from operating activities increased by $90.1 million to $128.5 million. As in previous years, the funds from operating activities were primarily used to fund purchases of capital assets. Funds from operations increased by $26.4 million during 1996 from $69.7 million to $96.1 million over the previous year, and the non-cash working capital provided by operations in 1996 increased by $63.7 million to $32.3 million from a use of $31.4 million. This reversal in 1996 had been expected.

The Company also received proceeds of $25.4 million from the disposal of the North American agricultural business unit in 1996. The Company repaid $10.9 million in long-term debt and paid dividends of $7.2 million in 1996. At December 31, 1996, the Company had available approximately $80.0 million of short-term bank credit facilities. In 1996, the Company serviced both its long-term and short-term indebtedness with cash produced by its operating activities.

During the year ended December 31, 1995, cash provided from operating activities decreased by $15.3 million to $38.4 million. As in previous years, the funds from operating activities were primarily used to fund purchases of capital assets. Although the funds from operations increased by $12.0 million from $57.7 million to $69.7 million over the previous year, the non-cash working capital requirements in 1995 increased by $27.4 million to $31.4 million. Most of this increase was reversed in 1996 as expected. Also, in January 1996, the Company's major automotive customers caught up on the December 1995 late payments. At December 31, 1995, the Company had available approximately $30.0 million of short-term bank credit facilities. During 1995, the Company renewed a bank term loan of US$4.57 million until 1997 and repaid it then. The Company also repaid $2.4 million in long-term debt and paid dividends of $6.2 million.

The Company's interest free loans result from government initiatives and are repayable to the various levels of government according to the terms indicated in the attached financial statements. It is not possible for the Company to predict the likelihood of similar loans being available in the future.



Ted McGregor,
Group Vice President

The Company believes that cash from operations and borrowings available under its revolving credit facility will be sufficient to meet its anticipated cash needs for the foreseeable future. On January 4, 1995, the Company announced that the Board of Directors had declared its first dividend as a public company. The amount of that dividend was seven cents per share. The Company has continued to pay quarterly dividends. Each year those dividends, which amounted to seven cents, eight cents and ten cents a quarter through 1995, 1996 and 1997 respectively, have been based on the Company's performance in the prior year. Management expects that the Board of Directors will continue its established dividend policy. In 1998, the Company expects to be able to maintain its future interest expense at the current low level, support the dividend policy, and make certain payments on long-term debt without incurring further long-term debt. The Company also plans to make modest acquisitions during the coming year as the appropriate opportunities arise. It is expected that these will be funded through the available cash reserves.

Future Income Taxes

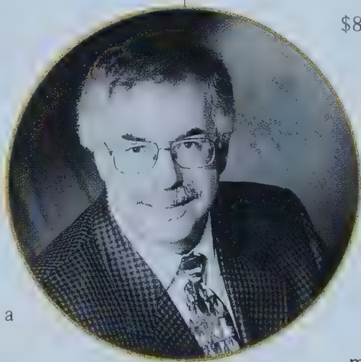
In 1997, the Company adopted the CICA's recommendations concerning the change from deferred income taxes to future income taxes. This change has been applied retroactively. As stated in note 2 to the financial statements, opening retained earnings increased by $0.6 million in both 1997 and 1996 as a result of this change. In 1997, future income taxes increased by $3.7 million due to increased timing differences resulting from depreciation on capital assets and the reduction of losses carried forward in three subsidiaries. In 1996, future income taxes increased by $4.0 million due to increased timing differences resulting from depreciation on capital assets and the reduction of losses carried forward in three subsidiaries.

Outlook

The Company expects that the sales revenue from the automotive section of the precision machining segment will continue to grow in 1998 at a similar rate experienced during the year ended December 31, 1997. This sales growth, which is anticipated to be approximately $130 million, is expected to develop from continued expansion in current programs as the related end products become increasingly used in new automotive models. The Company continues to receive new automotive related contracts for machining parts and for assemblies. Most of the precision machining segment's new business typically has a six to fifteen month start-up phase while equipment is obtained and the manufacturing process is defined. Over the subsequent year or two, the process is then refined and the customer's volumes are steadily increased to the expected full production level. In some cases the Company is able to take advantage of short-term production opportunities. These short-term opportunities result when the customer reaches capacity as the market grows. With the Company's recognized ability to react quickly with both people and equipment resources, Linamar is a preferred source for critical short-term contracts. Such business is expected to continue through the next year. The Company limits its exposure under such programs by using standard equipment that can be used in other applications once the spot buy program ends.

In the second half of 1997, the Company obtained a contract to produce Onan gasoline engines for power generation. The engines manufactured by the Company are expected to be sold for use in portable arc welders, motor homes and other commercial uses.

At the end of 1997, the Company commenced production. It is expected that sales of these engines will reach approximately $80 million in 1998. This business develops and extends the Company's assembly and other component capability. The Company is currently developing expertise in the manufacture of crankshafts and camshafts.



Paul Brophy,
General Manager

Linamar continues to enter into more long-term contracts. As this occurs, the Company is maximizing the use of general purpose machinery and reviewing the timing of the expiry of these contracts to ensure there is minimal disruption to the Company's operations. At December 31, 1997, the Company had approximately $22 million in outstanding commitments for capital expenditures under purchase orders and contracts, and a further $14.4 million in accounts payable. The majority of these commitments relate to new business coming on stream over the next two years. The Company expects to make payments for capital assets totalling approximately $90 million in the next year, a substantial portion of which will be used to acquire new machinery for new programs. The balance is used to increase capacity as required for current programs and to achieve the necessary efficiencies that accrue to appropriately employing current technology. Since December 31, 1997, the Company has contracted for a 32,000 square foot building addition at its

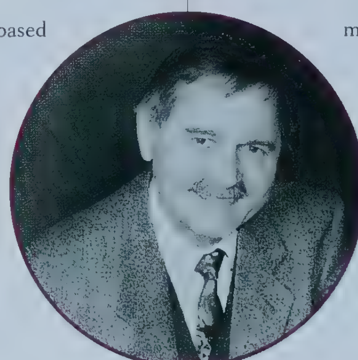
Comtech facility for approximately $0.9 million.

After the 1997 year end, the Company incorporated a subsidiary in Mexico to machine transmission parts for the automotive industry in Mexico. This business will commence production in late 1998. Since the Company has committed to expand in this region, many of the Company's other customers have expressed interest in the possibility of obtaining manufactured product with Mexican content from the Company's Mexican subsidiary.

The Company's main competitors are approximately six operations in the USA as well as the in-house capabilities of the automotive manufacturers. Linamar anticipates that it will continue to face strong and increasing competition based on price, quality, service and delivery. In order to better serve its customers, Linamar is continuing to enter into strategic alliances with its suppliers to submit bids for machined castings or forgings.

The Company has been developing an additional casting capability as it works with a minority partner in a small casting company, Diversa Cast Technologies Inc. This casting capability allows the Company to use the "lost foam" technique to produce some castings for products that the Company currently machines. Although the start-up continues to be difficult, the Company expects to reach a breakeven on these operations by the end of 1999. The level of sales in this area is expected to grow to about $5 million in two years.

The Company has also established a new entity, Standard Induction Castings Inc., through which it and a minority partner, the previous owner of the business, purchased the business of Standard Induction Castings Ltd. in the city of Windsor, for approximately $3.1 million. This business produces grey iron and ductile iron castings. With the new partner continuing his role in managing the business, Linamar expects to expand the productive capacity during 1998 from approximately $16 million in sales revenues to $30 million. The total investment required by Linamar is approximately $8.5 million.



Fred Brunnmeier,
General Manager

Linamar operates through facilities that function as autonomous operating units. Each facility is operated as a profit centre managed by a general manager with production expertise who has discretion, within broad guidelines established by Linamar's senior management, to determine hours of work, sources of supply and contracts to be performed. The independence of each plant allows Linamar to react quickly to new business opportunities. It also allows operational decision-making and cost control to occur at the plant level, thus permitting the monitoring of each profit centre and the effective implementation of management incentive programs.

Linamar is committed to the premise that organizational quality is one of the most critical elements in building and sustaining competitiveness in a global marketplace. Organizational quality requires that effective quality operating systems be incorporated into all of the business functions. Linamar has invested heavily in advanced measuring and monitoring equipment and utilizes a program known as "Statistical Process Control". This gives a machine operator the ability to rectify deviations that potentially lead to quality problems or unnecessary machine wear. Linamar also performs ongoing machine, process and gauge capability studies to ensure that quality and productivity are maintained or improved where possible. Currently, thirteen of Linamar's seventeen facilities in the precision machining segment are QS-9000 registered suppliers with the balance of the facilities striving for registration in 1998. The continued success of the Company's quality program is evidenced by its success under the QS-9000 continual recertification program. Linamar restricts its automotive research and development activities primarily to ongoing process development, undertaken at each plant by the management team in response to opportunities as they arise.

Research and development for agricultural equipment, although similar in nature, is more product than process oriented.

The Company continues to explore and obtain automotive components and parts opportunities in Europe for manufacture in its Mezőgép Rt. facility. The automotive experience gained from Mezőgép Rt.'s production of vacuum pumps, recent machining of new automotive parts, and the related ISO-9002 registration make the Mezőgép Rt. subsidiary a capable producer for the Western European market.

The Company expects that in 1998 the agricultural equipment segment's revenues at Mezőgép Rt. will experience a modest increase. The corn headers produced by Mezőgép Rt. for the Western European market currently represent the only agricultural product of the Company that has a significant share of its market. However, Mezőgép Rt. does have a variety of other harvesting products which it produces. In addition, Mezőgép Rt. will continue to supply AGCO with combine parts and assemblies through its long-term contract.

Risks associated with Eastern Europe include political and currency instability, developing infrastructure, the potential inability to repatriate earnings, and a developing legal framework. While reforms directed at political and economic liberalization are in process in these jurisdictions, including Hungary, and in some respects, significant progress has been made, there can be no certainty that these reforms will continue or, if continued, will be effective.

The Company has established a year 2000 compliance committee. This committee is currently in the process of ensuring that the controls on the manufacturing equipment are updated where needed to address year 2000 issues. The Company's information systems have been reviewed and the areas of risk have been identified and appropriate changes have already been made to the hardware and software upon which the Company primarily relies.

János Ivanics,
General Manager, Mezőgép Rt.

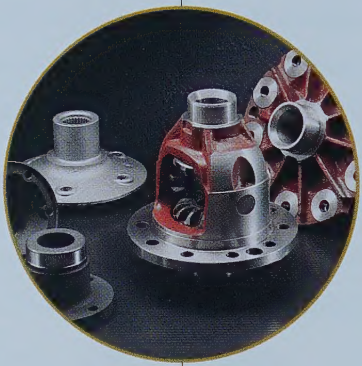
Other

As noted in the accompanying consolidated financial statements, Linamar's export sales from Canada to the United States amounted to $658.8 million and export sales from Canada to Europe and Asia amounted to $2.0 million during the year ended December 31, 1997. Similarly, many of the Company's raw materials, both forgings and castings, are purchased from the USA. Most of Linamar's contracts, both for revenue and expenses, are thus denominated in US dollars. The Company's policy is not to speculate on exchange rates. The Company minimizes the net foreign currency exposure in contracts by negotiating sale contracts, which provide a measure of exchange rate protection, and by entering into forward exchange contracts. These contracts, as described in note 10 to the consolidated financial statements, are designed to protect margins anticipated at the time of the contract award. The Company normally purchases forward contracts monthly for a three year term to cover the projected exposed US dollar net cash inflow. The Company is currently under some pressure from its US customers to quote future contracts in Canadian funds. As a result, it is expected that the growth in the Company's foreign currency net cash flow will be reduced.

The Company attempts to offset cost increases through a concerted effort in its sales, purchasing and production functions to maximize productivity. In the contract bidding process, economic inflation factors are estimated and applied to the costs. Also, certain of the long-term fixed price contracts have inflation protection clauses.

Internal efficiencies achieved by purchasing and production improvements generally provide moderate inflation protection. Considering current rates of inflation in North America, the Company believes that inflation does not pose a significant risk.

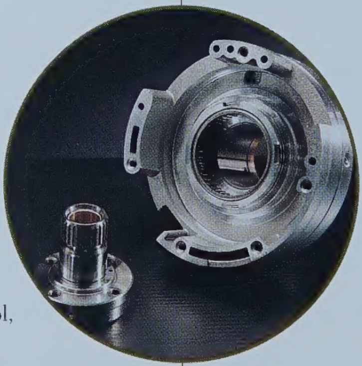
The precision machining segment accounted for approximately 95.2% of the Company's consolidated sales during the year ended December 31, 1997. Approximately 34.0% of the consolidated sales were to customers included in the General Motors group of companies, approximately 15.0% were to customers included in the Ford Motor group of companies and approximately 9.1% were to Detroit Diesel Corporation. Although no single product sold to any of these customers constituted more than 10% of the Company's consolidated sales, the loss of any of these customers or the delay or cancellation of any orders from or production projects for any such customers could have a material adverse effect on the financial condition of the Company.



Differential case assemblies, input flanges and wheel hubs

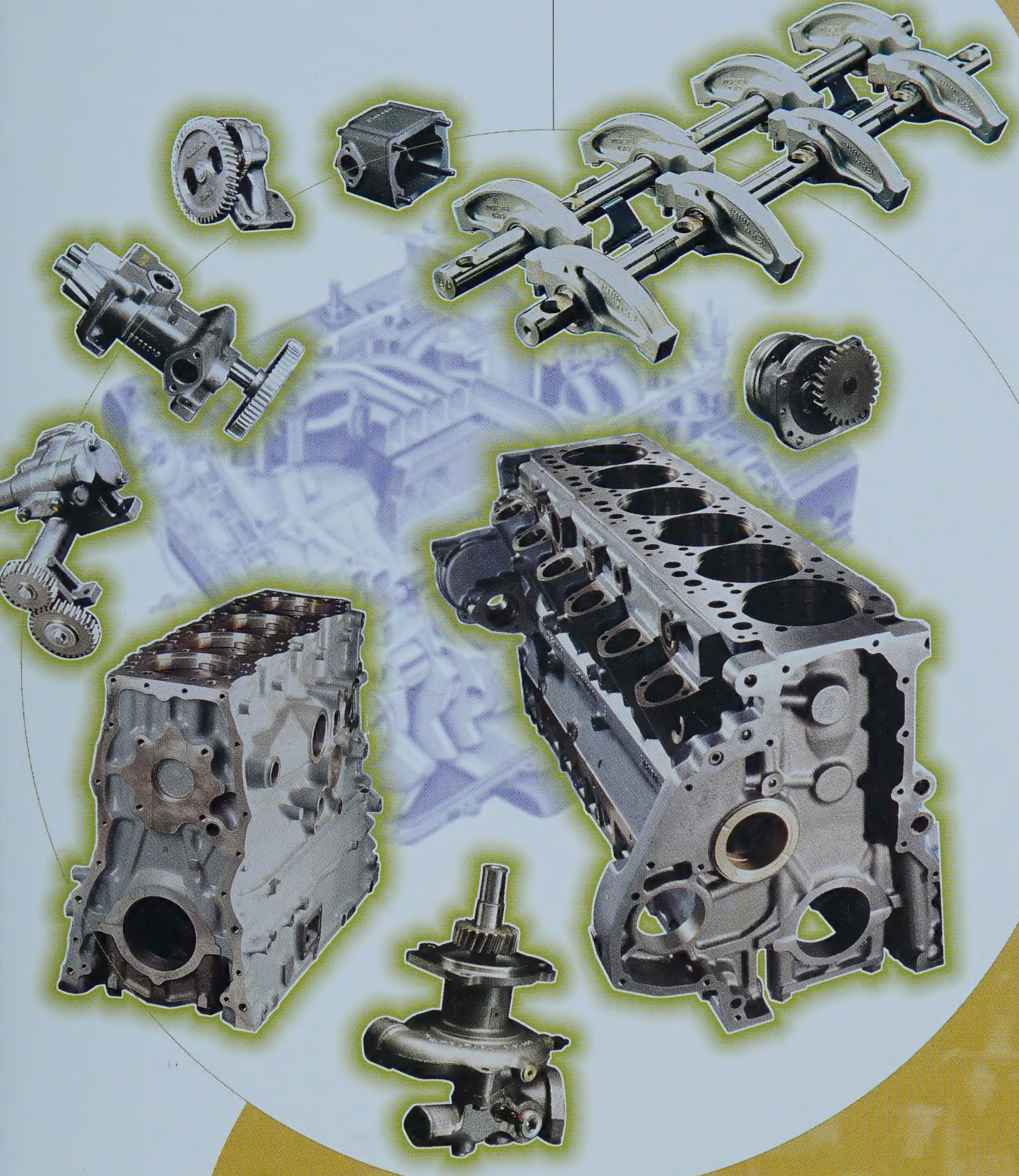
The Company has been named in lawsuits related to certain employee-related situations. The Company is vigorously defending these actions. It is expected that these may result in small costs to the Company either through settlement payments negotiated by the Company or through the insurance policy deductible payments in the cases that are being handled by the Company's insurers.

While management believes that Linamar is in substantial compliance with all material governmental requirements relating to environmental controls on its operations, changes in such regulations are ongoing and may make environmental compliance, such as emission control, waste disposal and water quality management, increasingly expensive.



Drive and driven sprocket support assemblies

The Company has established an Environmental Committee of senior management. This Committee reviews on an ongoing basis the Company's environmental programs and monitors its compliance with applicable environmental laws. This Committee reports quarterly to the Board of Directors of the Company. The Company also annually engages an independent environmental auditor to review the Company's compliance with applicable environmental requirements. Linamar knows of no material environmental liability at this time. Management is not able, however, to predict future costs which may be incurred to meet environmental obligations.



Total Customer Satisfaction

Linamar

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